

# Internal Control

*Recognizing that internal control is a crucial management priority, the Alfresa Group is committed to conducting sound business operations to fulfill its responsibilities as a corporate citizen.*

## Alfresa Group Initiatives

The Alfresa Group has positioned internal control as a key priority based on the theme of “enhancement of Groupwide management base and administration system” in its Medium-term Management Plan. The Group is focusing on the following initiatives:

### 1. Compliance

The Alfresa Group has established Alfresa Group’s Charter of Conduct and Compliance Guidelines as rules for maintaining high ethical standards and sincerity in all activities. At the same time, the Group is working to prevent negligence and violations of laws and regulations and Compliance Guidelines.

As for compliance initiatives, the Group is implementing training programs for its people, and has put in place a more easily accessible internal reporting system by establishing Compliance Consulting Offices at Group companies, as well as a Group-wide Compliance Consulting Office. Furthermore, internal audit departments at Group companies audit progress with compliance-related initiatives.

### 2. Risk Management

The Company and each Group company have put in place a risk management framework, taking into account the primary management risks faced by each company and the Group as a whole. Having evaluated the potential for the materialization of risks to hinder the achievement of the Group’s goals, the Group has made preparations for each individual risk that must be addressed. Furthermore, an emergency communications network has been established to rapidly and smoothly exchange information in times of emergencies.

### 3. Ensuring the Reliability of Financial Reporting

Evaluations and reporting of internal controls over financial reporting (“ICOFR”) cover the Company and all its consolidated subsidiaries. This process begins with the Company itself verifying whether proper controls are functioning on a consolidated basis. Based on this, the evaluations focus on the risk of material falsifications of financial reporting in business processes that form the basis of financial statements, including transaction approval, execution, calculation, aggregation, recording and preparation of disclosures. The next step is to verify whether proper controls over this risk have been established and whether they are properly implemented, and to evaluate these controls. The public accounting firm appointed as the Group’s independent auditor expresses an opinion on whether the evaluation’s results are presented appropriately in all material respects.

At the Alfresa Group, when ICOFR was fully adopted, the Board of Directors of the Company passed a resolution on a “Basic Plan and Policy on Internal Controls Over Financial Reporting.” The Company undertook the following with respect to the fiscal year ended March 31, 2009, the first year of full adoption of ICOFR. Pursuant to the requirements of the Financial Instruments and

Exchange Law of Japan ("the Law"), management assessed the Company's ICOFR as of March 31, 2009 in accordance with the assessment standards of ICOFR generally accepted in Japan, and issued an Internal Control Report which states that ICOFR was effective as of March 31, 2009. In addition, KPMG AZSA & Co., the independent auditor of the Company, audited the Company's Internal Control Report as of March 31, 2009 in accordance with generally accepted auditing standards of ICOFR in Japan as required by the provisions of the Law. The independent auditor's report dated June 25, 2009 expressed an unmodified opinion on the Company's Internal Control Report.

The evaluation of ICOFR is a management technique necessary to ensuring sound management. These internal controls must be properly established and implemented on a consolidated basis. Companies are constantly undergoing internal changes. Accordingly, the internal control system must be continuously reviewed and consistently evaluated. Regarding reporting, the Alfresa Group will strive to establish an ICOFR framework in order to improve the reliability of financial reporting and prove genuinely trustworthy in the eyes of investors and various other stakeholders in the markets.

As explained in the basis of financial statements, the accompanying consolidated financial statements included in this annual report have made certain reclassifications, summarizations or inclusions of additional footnotes to the consolidated financial statements that were prepared and presented as required by the Law. The Company's Internal Control Report does not cover the internal control of such reclassifications, summarizations or inclusions of additional footnotes, which are outside the scope of the management assessment of ICOFR in Japan as required by the Law.

#### **4. Ensuring Effective and Efficient Operations**

The Company ensures that relevant departments manage documents concerning directors' duties, and other information, such as documents concerning general meetings of shareholders, Board of Directors meetings, the Executive Committee, and requests for managerial approval, based on the Company's rules governing company information. At the same time, the general manager in charge of information management supervises overall document and information management.

The Company tracks each Group company's progress with their businesses while implementing Group-wide initiatives to achieve targets. Furthermore, the executive officer system ensures a clear separation between directors' duties and executive officers' business execution functions. Executive officers work to rapidly and efficiently execute operations under an appropriate chain of command based on rules governing the corporate structure and rules governing the powers and responsibility of directors, officers and managers. Executive officers also strive to ensure effective and efficient operations by clarifying operating procedures for matters concerning requests for management approval in terms of their scope, plan formulation, managerial approval by sending around a document and authorization based on rules governing requests for managerial approval.

#### **5. Strengthening the Audit System**

In light of the significance and utility of audits performed by Corporate Auditors, the Alfresa Group works to compile documents to ensure a system where Corporate Auditors can gather information needed for auditing in a timely and appropriate manner. The Alfresa Group also exchanges views with Corporate Auditors at their request. In addition, efforts are focused on strengthening cooperation between the Corporate Auditors and the Audit Department.